



October 30, 2006

Mr. Richard Krolak  
Chief, CalPERS Office of Long Term Care  
400 P Street, 5<sup>th</sup> floor  
Sacramento, CA 95814

Subject: CalPERS Long Term Care Program – Rate Increase Recommendation

Dear Mr. Krolak:

Per the direction of the Health Benefits Committee (HBC) of the CalPERS Board during their October 17<sup>th</sup> meeting, the actuaries from United Health Actuarial Services, Inc. (UHAS) and Mercer have worked to develop a joint recommendation for presentation at the next HBC meeting to be held on November 14<sup>th</sup>. This letter summarizes the results of our work in that regard.

Please note that as a result of our continued discussions with Mercer, we reviewed an assumption set that both firms agreed is a primary source of the differing valuation results. Based on that additional review, we could not justify revising anything within that assumption set.

As communicated previously, the aggregate rate increase implemented effective 7/1/06 and applicable to 2004 and prior issues that would be required to generate a target margin of 3% would be 36.6%. While I would recommend incorporating an even larger margin, I understand that the proposed increase is already substantial. All parties need to understand that there is little margin for adverse deviation built into this proposed aggregate rate increase, which increases the likelihood that additional actions would need to be taken in the future.

The above comments notwithstanding, I was asked to provide a proposed aggregate rate increase corresponding to the 36.6% referenced above, but not providing for any margin (i.e., leading to projected break-even results). The corresponding rate increase amount is 33.6%, which is the lowest aggregate rate increase (as defined above) that could be implemented without departing from UHAS valuation results as of 6/30/06.

I understand that the Mercer actuaries will be opining under separate cover regarding the impact of the above action(s) given their most recent valuation results.

Mr. Richard Krolak  
CalPERS Long Term Care Program – Rate Increase Recommendation  
October 30, 2006  
Page 2 of 2

Please note that we have appreciated the Mercer actuaries' review and subsequent questions/comments/discussions/etc. regarding our valuation. We have carefully considered their input, and we will continue to keep it in mind when working through future analyses and valuations relating to this program.

Please feel free to contact me to discuss any of this at (317)575-7672 or via e-mail at [kvolkmar@uhasinc.com](mailto:kvolkmar@uhasinc.com).

Sincerely,

A handwritten signature in black ink, appearing to read 'Karl G. Volkmar', written in a cursive style.

Karl G. Volkmar, FSA, MAAA, FCA  
Principal & Consulting Actuary